

CMS 156943/DC

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*host government
department*

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Dear Sue

2010 SPENDING REVIEW

I am writing to inform you about the outcome of the 2010 Spending Review for my Department. DCMS' overall budget will reduce by 25% by 2014/15, which comprises a 24% reduction to the resource budget and a 32% reduction to the capital budget.

This letter sets out the funding settlement for UK Sport covering the financial years 2011-12 to 2014-15. I am setting out these high level budget allocations now to give you the best opportunity to plan for what will be a very challenging four year period. This letter will be followed by a more detailed funding agreement that will include full details of the settlement over four years, and the Government's requirements to support the transparency agenda.

My overall approach to the Spending Review has been to tackle the challenge in a strategic way, based on four principles:

- cutting waste and inefficiency, stopping lower priority projects and rethinking the role of the state in the sectors in which we operate;
- protecting for the long term our unique cultural, heritage and sporting assets;
- delivering a safe and successful Olympics in 2012; and

- contributing to the Government's growth agenda by supporting growth in our sectors and in the wider economy.

The resource grant in aid budget for your organisation will be cut by 28% in real terms by 2014/15. Obviously, the figures for the latter two years of the Spending Review period will transfer over to the merged body when it is established. However, I would reassure you that Ministers will continue to allocate funding to the merged body for specific functions. So, the UK Sport provision will remain allocated for the current UK Sport functions within the overall framework set out in this letter.

Within this settlement I expect –

- Your first priority to be world class funding for Olympic and Paralympic sport in order to deliver medal success on the world stage.
- As part of this, funding for summer Olympic and Paralympic sports to be maintained up to 2012, subject to the usual performance related decisions.
- During this Spending Review period, cuts to the summer Olympic and Paralympic sport programme to be limited to a maximum of 15% in real terms after 2012.
- You to consider how you, NGBs and other organisations could work better together to lever additional private sector funding into Olympic and Paralympic sport alongside public funding.
- You to work with the Home Country Sports Councils and Commonwealth Federations in the run-up to Glasgow 2014 to maximise our teams' performances.
- You to consider how we could improve Team GB's performances at the Winter Olympics and Paralympics.
- Your second priority to be increasing the budget for World Class Events to £5m per year to support the Government's economic growth strategy.
- Your administration cost level to be reduced by 50% in real terms by the end of the Spending Review period.
- You to work with the Department and Sport England to deliver a merged organisation by the target date of 1st April 2013, including driving out administration savings through closer working in advance of the merger.
- You to work with the Department and Sport England to improve the governance of NGBs, including in the areas of equality and diversity.

We expect that bodies will meet the costs of restructuring. Where there are genuine difficulties, you should contact DCMS to explore options that might be available.

Budgetary control totals

The control totals against which UK Sport's net expenditure will be monitored and the grant in aid that DCMS will pay in each year are set out in the table below. The key controls are the first two elements of the resource budget – the near-cash spending on programmes and on administration, and the overall capital budget.

| £m | Resource Budget | | | Total Resource (DEL) Budget | Capital Budget | | | Total Capital (DEL) Budget | Grant in Aid |
|---------|-----------------------|----------------------------|--------------------------|-----------------------------|----------------|--------|----------|----------------------------|--------------|
| | Programme (near-cash) | Administration (near-cash) | Ring fenced depreciation | | Core capital | Grants | Projects | | |
| 2011-12 | 55.671 | 4.329 | 0.583 | 60.583 | 0.301 | | | 0.301 | 60.301 |
| 2012-13 | 61.277 | 3.723 | 0.618 | 65.618 | 0.316 | | | 0.316 | 65.316 |
| 2013-14 | 35.787 | 3.213 | 0.655 | 39.655 | 0.330 | | | 0.330 | 39.330 |
| 2014-15 | 40.227 | 2.773 | 0.693 | 43.693 | 0.345 | | | 0.345 | 43.345 |

The approach that I have taken in setting these allocations is to commit most of the Department's resources to the bodies that we fund, and to keep only very limited funds back at the centre. This necessarily means that I am left with very little flexibility to deal with risk, for example to meet unforeseeable changes in circumstances and priorities that will arise, particularly in the latter years of the Spending Review period. So, while these allocations set out my firm plans for the next four years, they cannot be immutable, particularly for the third and fourth years. I must ask you to build into your own plans some flexibility in the later years. My intention would of course be to minimize any changes to budgets, and to keep them below 5 per cent of your overall allocation in any case.

The Resource DEL Budget is split into three sub-totals. The **Administration** budget is the amount available for net expenditure on administration and management of your organisation. The reducing budget over the period reflects the priority I place on ensuring that funds are used for front-line delivery. Further information about the nature of these control totals and the flexibility between budgets can be found in **Annex A**.

Capital

DCMS' capital budget reduction is 32%. Capital budgets are tighter than for resource spending, making decisions here more difficult. We have therefore focussed our spending on completing those major projects that are already underway and maintaining capital spending on maintenance of core cultural and sporting assets. We have also been able to provide funding for the roll out of the Coalition's commitment to high speed broadband. Your core capital budget is £1.29m over the financial years 2011-12 to 2014-15.

Transparency

To replace the performance frameworks that you may have been used to in the past, UK Sport will instead be expected to make information available to the public on a range of subjects. This will involve the formulation of an information strategy setting out what will be published and when. Further guidance about what must be included will be given in the funding agreement (which will be issued shortly) but it will incorporate a range of inputs and impact indicators.

Despite the difficult circumstances, this represents a fair settlement with safeguards to protect the cultural cores. My Ministerial Team and I look forward to working with you over the next four years.

Yours ever

Jeremy

JEREMY HUNT

Secretary of State for Culture, Olympics, Media and Sport

Annex A

Resource DEL budget

The Resource DEL Budget is split into three sub-totals. The **Administration** budget is the amount available for net expenditure on administration and management of your organisation. The reducing budget over the period reflects the priority I place on ensuring that funds are used for front-line delivery. Should you wish to go further in reducing administration costs to enable a larger portion of the funds provided to be used at the front-line, you will not be penalised and you have the authority to use any underspend on the administration budget in either the programme or depreciation budgets instead.

In contrast, the **Depreciation** budget is operated as a one-way ring fence. This means that, after your net depreciation¹ and impairment charges have been set against it, any overspend must be covered by a reduction in expenditure on either the Programme or Administration budgets. Should there be an underspend against the depreciation budget however, no additional expenditure is permitted in other areas.

The **Programme** budget is simply all other resource expenditure not already captured in the Depreciation and Administration budgets.

Capital DEL budget

The Capital DEL budgets are also separated into three distinct control totals.

Where UK Sport has a **major project**, the specific funding for this is shown separately. It is not permissible to switch funding from that project to other areas of capital expenditure without the permission of the Department. You are expected to control expenditure on the project and plan to ensure that the project conforms to the budgetary limits shown. I wish to be quite clear that any slippage in the project that requires the deferral of expenditure to a later year will only be approved if the Department's overall budget has sufficient headroom to accommodate it. If it does not, you will be expected to defer expenditure and re-phase the project to conform to the profile shown. I would encourage you to ensure that any contracts you sign or agreements that you enter into are flexible enough to accommodate this.

Capital grants are also given a separate heading within the Capital DEL budget. This is only for grants given to third parties and may not be used on any capital projects or schemes by UK Sport itself.

The last category is **core capital**. This captures all other capital expenditure and might include smaller capital projects, maintenance and replacement work. The Department will look kindly upon proposals to use the budget allocated for core capital expenditure on either increasing the value of capital grants distributed or on assisting with the re-profiling of major projects; however, you still require Departmental approval to change the nature of the expenditure.

¹ The depreciation charged against the DEL budget excludes depreciation on assets funded by lottery grants or donations.

Please remember that any project that costs (over its lifetime and including all funding streams) more than your delegated capital limit must be approved by the Investment Committee at DCMS using the approved process.